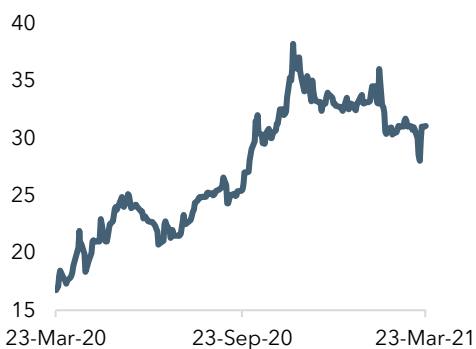




Price	₦31.05
FVE	₦42.21
52-week range	₦16.7 -38.45
Market Cap. (₦'mn)	913,838
1-month Avg. Vol	25,492,246
Curr. PB	1.14x

### GUARANTY:NL - Share Price Trend



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Click link below for initial view on Guaranty

[Initial view - GTB Plc FY 2020 - Lower funding cost propels higher earnings](#)

## Guaranty Trust Bank Plc. (GUARANTY.NL)

### Stock report

#### A rebound in earnings in the near term

- Following the FY 2020 conference call held on Monday, we have revised our numbers for GTB. Key focus at the call were update on the Holding company structure, loan book, interest rate expectations and expectations of revaluation gains. We have made some adjustments to our FY 2021 forecast for GT bank following clarification at the call. We raised our FY 21E non-interest revenue to reflect our expectation of higher net fee income and foreign exchange revaluation gains. In addition, we made an upward adjustment to interest income to reflect the current rate environment. The impact of these adjustments takes our PBT to ₦261.7 billion and EPS of ₦7.57 (+11% YoY) over 2021. Hence, we revise our recommendation to a **STRONG BUY** rating on GUARANTY, with a revised FVE of ₦42.21, with an upside of 36%.
- Key highlights from the conference call were management guidance for loan growth and strategy for its holdco structure. Management guided to a 10% growth in loans over 2021. On the holding company structure, management noted that while the Covid-19 pandemic slowed the process of the completion, they are at the final stage of approval. Hence, management expects to run a Holdco for at least half this year - 2021. On diversification of earnings, one of the highlights mentioned was the bank's strategy to focus on retail PFA business, leveraging on its strong retail presence. In addition, management intends to venture into asset management and payment business. Meanwhile, management expects 25% growth in deposit, 35% cost to income ratio, 8% net interest margin (NIM) and cost of risk and NPL ratio (coverage ratio above 100%) of 1% and 6% respectively. Overall, management guided to PBT growth of 2% to ₦243 billion in FY 21 (2.8% YoY in FY 20).
- NIR to command earnings story.** Over FY 2020, GT bank benefited from the impact of FX devaluation, particularly on its long US\$1.15bn position (Ex-US\$613mm SWAP positions). Hence, the bank recorded a growth of 8.9% YoY in Non-Interest revenue against the backdrop of foreign exchange revaluation gain (+232% YoY) and trading income (+17% YoY). For us, we expect further revaluation gains as recent movements in Naira at the IEW (Q4 20: ₦389.3/\$ vs Q1 21: ₦401.9/\$ on average) signals room for revaluation gains in 2021. Meanwhile, we expect the recovery in net fee and commission income (+18%

- YoY), as the base effect – a fallout of CBN revised bank charges implemented in January 2020 – filters out.

*Investment securities to remain central to interest income growth:* On loan growth, we align our forecast with management guidance of 10% YoY (+10.7 YoY in FY 20) increase in loan over 2021, as we expect continuous growth in loans. However, our expectation of faster growth in deposit (+20.4% YoY) informs our forecast of a moderation in loan to deposit ratio. In addition, due to our anticipation of improved interest rate environment over 2021, we see higher prospect for growth in interest on investment securities, cash and financial assets. We expect expansion in treasury instruments and cash equivalents by 12% YoY and 5% YoY to a cumulative of ₱1.95 trillion. Accordingly, we project 7.24% YoY expansion in interest income on investment securities to ₱105.1 billion. That said, we see moderate expansion in interest income by 3% YoY to ₱309.1 billion. On interest expense, we expect funding cost to increase by 15% YoY reflecting pickup in interest rate environment. This brings our expectation on net interest income to ₱255.1 billion (+1% YoY) over FY 2021. Elsewhere, we expect loan loss provisioning to moderate by 11% YoY, reflecting improved cost of risk of 0.8% (FY 20: 0.99%) and NPL ratio of 6% (FY 20:6.39%). Our NPL ratio forecast reflects expected restructuring of loans and increase in loan book.

- *A rebound in earnings in the near term.* Net impact of our overall adjustment translates to PBT of ₱261.7 billion and EPS of ₱7.57 (+11% YoY) over 2021. Hence, we revise our recommendation to a **STRONG BUY rating on GUARANTY**, with a revised FVE of **₱42.21** (from ₱36.16) due to i) expectation of higher growth in net loan book forecast by 9.7% YoY (previously: 5.6%) and upward revision of interest income by 2.8% YoY to ₱309.1 billion (previously: ₱301.4 billion) and ii) upward revision of NIR by 16% YoY to ₱172 billion (previously: ₱151.3 billion).
- GUARANTY trades at a current P/B ratio of 1.14x, at a premium to its one-year average of 1.08x and a discount to its five-year historical average of 1.56x. Also, it is trading at a premium compared to ZENITH's PB of 0.62x, which is justified given GUANRANTY's strong and sustainable ROAE (GT bank FY 20: 26.8% vs ZENITH FY 20: 22.4%). At current price of ₱31.05, our expected dividend of ₱3.09 over FY 21E translates to a dividend yield of 10%.

## Summary of Results and Forecasts

Balance Sheet	2019	2020A	2021E	2022E	2023E
<b>Assets</b>					
Interbank	1,513	99	111	123	145
Inv. Securities	1,489,112	1,855,521	2,024,644	2,106,240	2,187,502
Net loans	1,500,572	1,662,732	1,823,480	1,927,886	2,029,038
Interest-earning assets	2,991,197	3,518,352	3,848,235	4,034,250	4,216,685
<b>Total assets</b>	<b>3,758,919</b>	<b>4,944,653</b>	<b>5,802,390</b>	<b>6,251,188</b>	<b>6,752,342</b>
<b>Liabilities</b>					
Interbank	107,518	101,510	105,570	110,848	116,391
Borrowings	163,000	113,895	120,728	126,765	133,103
Deposits	2,532,540	3,509,319	4,223,948	4,494,138	4,786,217
Interest-bearing liabilities	2,803,059	3,724,724	4,450,246	4,731,751	5,035,711
<b>Total liabilities</b>	<b>3,071,581</b>	<b>4,130,258</b>	<b>4,855,780</b>	<b>5,137,285</b>	<b>5,441,245</b>
<b>Shareholders Equity</b>	<b>687,337</b>	<b>814,396</b>	<b>946,610</b>	<b>1,113,903</b>	<b>1,311,096</b>
<b>Income Statement</b>					
	<b>2019</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Gross Earnings	432,331	448,985	481,109	546,422	589,978
Interest Income	296,205	300,738	309,056	357,794	386,288
Interest Expense	(64,842)	(47,069)	(53,936)	(67,357)	(71,492)
Net Interest Income	231,363	253,668	255,120	290,437	314,796
Non-Interest Revenue	136,127	148,248	172,054	188,628	203,690
Total Costs	(130,971)	(147,438)	(150,860)	(154,972)	(158,989)
Provision Charge	(12,169)	(4,906)	(4,811)	(16,382)	(14,588)
PBT	231,708	238,095	261,725	312,525	351,381
Tax	(34,842)	(36,655)	(38,997)	(45,316)	(50,950)
Net Profit	196,866	201,440	222,728	267,209	300,430
Dividend Paid	(81,007)	(80,936)	(81,007)	(83,097)	(91,067)

Key YoY growth rates (%)	2019	2020A	2021E	2022E	2023E
Loans	19.2%	10.8%	9.7%	5.7%	5.2%
Interest Earning Assets	13.1%	17.6%	9.4%	4.8%	4.5%
Deposits	11.4%	38.6%	20.4%	6.4%	6.5%
Interest Bearing Liabilities	10.6%	32.9%	19.5%	6.3%	6.4%
Assets	14.3%	31.5%	14.3%	31.5%	17.3%
Gross Earnings	-0.1%	3.9%	7.2%	13.6%	8.0%
Costs	3.0%	12.6%	2.3%	2.7%	2.6%
PBT	7.5%	2.8%	9.9%	19.4%	12.4%
PAT	6.6%	2.3%	10.6%	20.0%	12.4%
EPS	6.6%	2.3%	10.6%	20.0%	12.4%
Per-share data (N)	2019	2020A	2021E	2022E	2023E
No of common shares (mn)	28,112,933	28,112,933	28,112,933	28,112,933	28,112,933
EPS	6.69	6.84	7.57	9.08	10.21
DPS	2.75	2.82	3.09	3.42	3.54
BVPS	27.67	32.16	37.85	44.55	51.70

Balance-sheet ratios (%)	2019	2020A	2021E	2022E	2023E
Loan/Assets	39.9%	33.6%	31.4%	30.8%	30.0%
Deposit/Liabilities	82.5%	85.0%	87.0%	87.5%	88.0%
Loans/Deposits	59.3%	47.4%	43.2%	42.9%	42.4%
Assets/Equity	5.47	6.07	6.13	5.61	5.15
Asset Quality	2019	2020A	2021E	2022E	2023E
NPLs					
NPLs/Gross Loans (%)	6.5%	6.4%	6.0%	4.5%	4.5%
Credit change (%)					
Margins (%)	2019	2020A	2021E	2022E	2023E
Asset Yield	10.5%	9.2%	8.4%	9.1%	9.4%
WACF	2.4%	1.4%	1.3%	1.5%	1.5%
NIM	8.21%	7.79%	6.93%	7.37%	7.63%
Costs (%)	2019	2020A	2021E	2022E	2023E
Cost/Income	35.6%	36.7%	35.3%	32.3%	30.7%
Effective tax rate	15.0%	15.4%	14.9%	14.5%	14.5%
Profitability ratios (%)	2019	2020A	2021E	2022E	2023E
RoAE	31.2%	26.8%	25.3%	25.9%	24.8%
RoAA	5.6%	4.6%	4.1%	4.4%	4.6%

**ARM ratings and recommendations**

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% – 20 %	<b>NEUTRAL</b>	5% – 20 %
<b>NEUTRAL</b>	0% – 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% – 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy other subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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